

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON BIG 5 FALSE BAY MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Big 5 False Bay Municipality which comprise the statement of financial position as at 30 June 2011, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages XX to XX.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DORA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on the financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice No. 1111 of 2010* issued in *Government Gazette No. 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Big 5 False Bay Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and in the manner required by the MFMA and the DORA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

9. As disclosed in note 17 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during 30 June 2011 in the financial statements of the municipality at, and for the year ended 30 June 2010.

Going concern

10. While the municipality has prepared financial statements on a going concern basis there are a number of indicators that its financial sustainability is under threat.
 - The municipality's current liabilities exceed their current assets by R5,965 million.
 - The concomitant assets (investments and cash and bank) do not sufficiently support the existence of grants with a difference of R122 744.
 - The municipality also incurred fruitless and wasteful expenditure as a result of creditors not being paid within 30 days which resulted in interest charges.

Fruitless and wasteful expenditure

11. The municipality incurred fruitless and wasteful expenditure of R392 421 due to interest arising from late payment of supplier invoices.

Additional matter

12. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

13. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No.33872 of 15 December 2010*, I include below my findings on the annual performance report set out on pages XX to XX and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Usefulness of information

15. The reported performance information was deficient in respect of the following criteria:
 - o Relevance: A clear and logical link exists between the objectives, outcomes, outputs, indicators and performance targets
 - o Consistency: Objectives, indicators and targets are consistent between planning and reporting documents
16. The following audit finding relates to the above criteria:

A clear and logical link does not exist between reported development objectives, indicators and targets

17. There is no clear and logical link between the indicator/measures for more than 60% of instances and the municipality's development priorities/objectives as per the integrated development plan.

Reported objectives are not consistent when compared with the planned objectives

18. Reported performance against predetermined objectives is not consistent with the approved integrated development plan.

Compliance with laws and regulations

Strategic planning and performance management

19. The accounting officer of the municipality did not, by 25 January 2011, assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72(1)(a)(ii) of the MFMA.
20. The accounting officer of the municipality did not submit the results of the assessment on the performance of the municipality during the first half of the financial year to the mayor of the municipality, the National Treasury, and the provincial treasury, as required by section 72(1)(b) of the MFMA.

Budget

21. The council did not approve the annual budget of the municipality for the 2011-12 financial year before the start of the financial year, as required by section 16(1) of the MFMA.

Annual financial statements, performance and annual report

22. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122(1)(a) of the MFMA. Material misstatements of expenditure, liabilities and disclosure items were identified by the auditors and were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

23. The municipal council did not adopt an oversight report containing the council's comments on the annual report within two months from the date on which the 2009-10 annual report was tabled in the council, as required by section 129(1) of the MFMA.
24. The accounting officer did not make public the council's oversight report on the 2009-10 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.

Expenditure management

25. The accounting officer did not take effective and appropriate steps to prevent fruitless and wasteful expenditure, as per the requirements of section 62(1)(d) of the MFMA.
26. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

INTERNAL CONTROL

27. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

28. Management have not exercised oversight responsibility over financial and performance reporting, compliance with laws and regulations and internal control. In this regard, the financial statements were not adequately reviewed prior to submission for audit. There were no processes in place to prevent and detect fruitless and wasteful expenditure and non-compliance with laws and regulations.

Financial and performance management

29. Systems were not appropriate to facilitate the preparation of quality financial statements resulting in corrections being recommended as a result of audit findings. Actions were not taken to address risks relating to the achievement of complete and accurate financial reporting and to mitigate the risk resulting in non-compliance with regulatory and reporting requirements. This is because internal controls were not effectively developed to prevent, detect and correct misstatements, non-compliance and fruitless and wasteful expenditure.

Governance

30. Internal controls were not effectively developed to prevent, detect and correct material misstatements in financial reporting.

Pietermaritzburg

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

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